112 STATE STREET
DRAWER 20
MONTPELIER, VT 05620-2601
TEL: 802-828-2811

FAX: 802-828-2342
TTY (VT): 1-800-734-8390
e-mail: vtdps@psd.state.vt.us
Internet: http://ww.state.vt.us/psd

For Immediate release
June 13, 2005

For information contact:
David O'Brien, DPS Commissioner, 802-828-2811

STATE OF VERMONT
DEPARTMENT OF PUBLIC SERVICE

MEDIA RELEASE

DPS Offers Comments on Recent Credit Downgrade of CVPS

Montpelier, VT – "The Department is very disappointed to learn of the recent decision by Standard & Poor's to downgrade CVPS credit rating below investment grade. We consider the credit standing of our investor owned utilities to be integral to their effective service to Vermont consumers", commented Commissioner David O'Brien.

"It is important for the public to know that we understand the importance of the company's credit standing and the perception of Vermont in the marketplace. We do believe there are some important considerations that explain the way the rate case was handled and how other issues contributed to the company's risk profile" added O'Brien.

<u>Rate Case:</u>

- The Department pursued this rate case no differently from the approach it has taken with other utilities in the past, including CVPS. The Board's opinion shows through citations to well-established prior orders and court cases that this was a case decided along traditional ratemaking principles.

- The Department found and the Board concurred that CVPS had significantly miscalculated their excess earnings in 2001, 2002 and 2003. The result of which was a material reduction in their allowed revenues over the next three years.

- When CVPS sold its New Hampshire subsidiary, it recovered $21 million of stranded costs associated with the long term Hydro Quebec purchase power contract. This resulted in a $6 million gain that CVPS wanted to pass along to stockholders. The Department argued the gain belonged to Vermont ratepayers as the $6 million gain could and should be used to help off-set the general, administrative, common and direct costs that are now flowing back to Vermont as a result of the sale of CVEC.

- In the Department's view, even with the aforementioned revenue disallowances, the resolution of this rate case will allow CVPS to earn its allowed return on its regulated utility business on a going forward basis given the rates set in the PSB order.

Credit Downgrade:

We do not view the credit downgrade by S&P as being truly reflective of CVPS' risk profile. In recent years CVPS has been granted ongoing rate recovery of their power costs, most importantly Hydro Quebec. They have sold their stake in VT Yankee thus eliminating risks to ratepayers and shareholders from ownership of a nuclear station, most prominent of which is decommissioning risks. It is also important to note the following:

- S&P continues to treat CVPS' long-term contract with Hydro Quebec as a liability. As market prices continue to climb due to commodity price fluctuations this contract becomes more and more favorable to CVPS and its customers. The treatment of this contract as a liability has a major adverse impact on the company's financial position for credit rating purposes.

- S&P looks at the entire company, regulated and unregulated, and their ability to generate sufficient cash flow to meet their obligations, including capital expenditures, dividends and capital commitments to unregulated subsidiaries. A regulator's responsibility ends with the assurance that the utility can generate sufficient revenue in rates to earn their allowed return on regulated operations.

The Department of Public Service continues to pursue a balanced and thorough approach to protecting the ratepayer interest. The CVPS rate investigation was based on the facts presented according to long established ratemaking principles. We regret the decision by Standard & Poor's and the challenges it presents to Central Vermont employees. As we commenced the investigation we understood that a thorough investigation of the facts could lead to an adverse reaction by the rating community. However, the interests of ratepayers and ratings agencies are not aligned entirely. We believe that we advocated for a reasonable return on the regulated operations of Central Vermont Public Service and that the company can sustain service to customers under the rates now in effect.

###